Evaluations of CETA PSE programs have generally concluded that many persons hired with federal funds would have been hired in any event—that is, the federal funds substituted for state and local funds that would otherwise have been spent. However, the extent of such fiscal substitution under PSE programs—or under any state and local grant program, for that matter—is difficult to assess. To the extent that substitution does occur, it reduces the short-term direct public employment effect of a program. In the long run, however, if states and localities substitute federal funds for their own resources, it permits them to increase other programs or to reduce their own revenue-raising efforts, both of which generate additional economic activity, and thus employment.5/

The federal government also funds separate public employment programs designed only for youth, but these programs have never been used explicitly as countercyclical devices. The largest of these is the Summer Youth Employment Program (SYEP), currently funded under CETA and to be continued under its successor program. SYEP has provided up to 800,000 jobs annually for economically disadvantaged youth in nine-week summer

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5. The weight of the evidence suggests that, in PSE programs before the 1978 CETA reauthorization, between 50 and 60 percent of the federal funds substituted for state and local spending that would have occurred in any event. See U.S. Department of Labor, **The Implications for Fiscal Substitution and Occupational Displacement Under an Expanded CETA Title VI** (March 1979). Substitution probably decreased as program restrictions were strengthened in 1978.

work projects, at a cost of about \$1,000 per job in 1982 dollars. Two smaller programs—which no longer exist—that provided public employment for youth are the Young Adult Conservation Corps (YACC), a year-round program; and the Youth Conservation Corps (YCC), a summer program. Neither of these programs was limited to the economically disadvantaged, and both typically involved moving youth from their homes to residential centers near conservation work. These two programs together provided more than 50,000 jobs in 1981, the last year in which they were funded. The cost per position in the full-year YACC program was \$12,600 in 1981.

Youth programs provide employment opportunities that would not otherwise be available. By one estimate, at least two-thirds of the jobs represent additional job demand for disadvantaged youth, although the proportion of net job creation may be lower for other youth. There is no evidence that these programs contribute to the long-term employability of youth, however.

Policy Implications and Options

A new public employment program could increase short-term job opportunities in nonprofit organizations and government agencies, although the extent of net job creation in the short run is uncertain. The sorts of persons benefiting directly from any such program, the number of persons

who could be hired, and the speed with which additional jobs would be made available would depend on the kinds of persons eligible for PSE jobs, the wage levels paid, and the sorts of services provided.

Restricting jobs to low-income persons or to persons who have been unemployed for a long period of time would focus aid on those with the greatest immediate need for income and on those hit hardest by the current recession. Such an approach could also mean that a greater proportion of the jobs would go to chronically disadvantaged persons, rather than to the cyclically unemployed. As the recession continues, however, and the cyclically unemployed deplete their financial resources, they might be more interested in short-term, low-wage employment. Targeting employment on low-income persons and on the long-term unemployed might slow the pace at which the positions could be filled, however, and would mean that a greater proportion of the additional services generated would have to be those that could be provided by relatively low-skilled workers.

Permissible wage levels under any public service employment program would also affect program outcomes. Placing low maximum wage limits on PSE jobs would permit a greater number of persons to be helped for the same federal expenditure, but would limit the kind of services that could be provided and the types of persons who would be interested in obtaining such jobs.

Finally, the services to be provided could be restricted directly. Restricting the kind of services would allow the federal government to expand the production of particularly valued public goods. On the other hand, narrowly restricting the range of eligible services might slow program implementation and--depending on the kinds of services prescribed--could make the jobs inaccessible to the lowest-skilled among the unemployed.

After a public service employment program was authorized and the administrative structure established, the jobs could probably be filled relatively quickly. Presently, however, an administrative structure does not exist, since the primary PSE programs were eliminated in the 1981 Reconciliation Act.

COUNTERCYCLICAL REVENUE SHARING

Another approach to increasing employment would be to provide unrestricted cash grants to states and localities. State and local governments would then be expected to use their countercyclical revenue sharing funds to increase expenditures or offset tax increases, thereby generating additional economic activity and employment.

Past Experience

Countercyclical revenue sharing has been provided previously through the Antirecession Fiscal Assistance (ARFA) program, which distributed over $3 billion between July 1976 and September 1978 to state and local governments located in areas of high unemployment.6/ During each quarter in which the national unemployment rate was 6.0 percent or higher, the ARFA program provided grants to states, counties, cities, and townships with unemployment above 4.5 percent.

In the short run, funds distributed under the ARFA program increased recipients' financial balances, with over half of the funds distributed in the first year and one-half remaining in balances at the end of that period. The full stimulus effects of ARFA on the economy were thus not felt until 1978, by which time economic recovery was well under way. Estimates are that by the end of 1978, 70 percent of the funds had been used to increase expenditures, 20 percent had been used to offset tax increases that would otherwise have taken place or to lower taxes, and the remaining 10 percent remained in balances. In general, state governments used funds to provide health and welfare support and education aid. Large counties used ARFA funds for health and welfare funding and public safety, while smaller

6. This discussion of the ARFA program is drawn from: Peat, Marwick, Mitchell, and Co., **An Analysis of the Antirecession Fiscal Assistance Program**, prepared for the U.S. Department of the Treasury, Office of Revenue Sharing, April 1978.

counties supported public works projects and general government. City governments concentrated their funds on public safety and public works projects.

An evaluation of the ARFA program estimated that about 20,000 public-sector jobs were created or retained in assisted jurisdictions during the first half of 1977 as a result of the federal funds, with about 26,000 more jobs generated during the first half of 1978, at an overall cost of $85,000 per job-year in 1978 dollars. An estimated 5,000 to 7,000 additional private-sector jobs were created in the first half of 1977 as a result of the increased state and local purchases, with anywhere from 29,000 to 40,000 more private-sector jobs created in the first half of 1978.

Policy Implications and Options

In providing unrestricted funds to state and local governments, the federal government depends on recipients both to use funds quickly and to finance activities that lead to increases in overall employment levels. The experience of the ARFA program suggests that it may be difficult for states and localities to respond swiftly and in ways that are employment-intensive, however. In the past, recipients of ARFA funds had difficulty in using increased funds quickly, at least in part because of their decision-making schedules and the time required to revise previously-made budget plans. On

the other hand, many state and local governments are currently experiencing significant budget constraints, due both to the cutbacks in federal grants and to the effects of the recession on revenues, suggesting that they would have an incentive to use additional funds quickly. Moreover, with unemployment levels expected to be high for some time, any slowness in responding might be a less important consideration this time.

Under this approach, state and local governments would have complete discretion in determining how to use additional funds, and their choices might or might not lead to large increases in employment. The federal government faces a tradeoff between ensuring that funds are spent in ways likely to lead to increased employment and allowing recipients discretion in allocating funds. The experience of the ARFA program suggests that when state and local governments are presented with unconstrained revenues they will use them in ways similar to their own revenues, rather than necessarily funding employment-intensive programs. Placing restrictions on the use of funds could affect the number of jobs created, but such restrictions would change the nature of the program.

If the Congress chose to fund fiscal assistance to states and localities as a means of stimulating employment, a number of program design decisions would have to be made. Among these would be when to start and

stop the program, how to determine eligibility and funding levels for recipients, and whether or not to constrain recipients in their use of funds.

COUNTERCYCLICAL HOUSING SUBSIDIES

Another, quite different, approach to expanding employment opportunities would be to generate additional economic activity in the private sector through subsidies for the construction or purchase of housing.

Past Experience

Countercyclical housing subsidies were provided during the last recession through the Emergency Mortgage Purchase Assistance program—commonly referred to as the Brooke-Cranston program. Under the Brooke-Cranston program, established in 1974, the federal government purchased privately written below-market interest rate residential mortgages at close to face value and subsequently resold them as market-yield instruments—absorbing the price difference as a financing subsidy.

Between October 1974 and September 1976, the government issued commitments to purchase about $7.8 billion of mortgages for one- to four-unit homes and $5 billion of loans on larger multifamily projects. By September 1979, approximately $6.4 billion in mortgages on one- to four-unit structures and $2.4 billion in multifamily loans had been purchased—

accounting for 190,000 units in one- to four-family homes and 117,000 units in larger buildings. The interest rates on the one- to four-unit mortgages provided subsidies of between one and two percentage points at an average cost to the government of approximately $2,200 per loan. The loans for multifamily structures carried slightly larger subsidies.

It is difficult to gauge the effect that these subsidies had on new construction--and thus on employment. An evaluation by the General Accounting Office estimated that the single-family mortgage assistance program resulted in between 2,000 and 63,000 net additional construction starts in the short run, offset, in part, by reductions in later years.7/ The "best estimates" of five housing analysts were that the program resulted in from 18,000 to 35,000 net additional construction starts in the short run. The net construction impact of the Brooke-Cranston program was reduced by the fact that it became available after mortgage interest rates had already begun to decline. No estimates are available of the net construction effect of the multifamily mortgage assistance program.

Policy Implications and Options

Experience under the Brooke-Cranston program suggests that the timing of any countercyclical housing construction subsidy program may be

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7. General Accounting Office, **What Was the Effect of the Emergency Housing Program on Single-Family Housing Construction?** (November 21, 1978).

crucial to its impact. If aid was made available when mortgage interest rates were inhibiting new home purchases and construction, the financing subsidies could induce some persons to buy or build homes earlier than they might otherwise have, thereby spurring more construction activity at that time. If, on the other hand, mortgage assistance became available after interest rates had already declined to broadly affordable levels, then a greater share of the assistance would probably go to persons who would have purchased or constructed homes in any event.

Where the housing industry is now in the construction cycle--and, thus, what the short-term impact of any new stimulus would be--is difficult to assess. On the one hand, construction remains at severely depressed levels by historical standards. As of October 1982, private new home construction starts were occurring at an annual rate of about 1.1 million units--more than 40 percent below the most recent cyclical peak in 1978, and more than 35 percent below the average for the entire decade of the 1970s. On the other hand, construction starts have increased by about 30 percent within the last year. Also, a recent rise in building permits suggests that a further upswing in starts may be at hand. Finally, the decline in mortgage interest rates that has occurred over the last few months makes new home purchases more affordable and will probably spur some additional housing activity, even without federal subsidies.

If the Congress chooses to fund a countercyclical mortgage subsidy program, at least two general approaches are available.8/ First, the Brooke-Cranston program could be reauthorized and funded. Second, the Congress could provide short-term mortgage-interest-reduction payments, rather than a one-time buydown of the interest rate.9/ Because the Brooke-Cranston program has operated in the past, it might be implemented somewhat more rapidly. Once implemented, it would require a shorter administrative involvement between the federal government and private mortgage lenders and servicers. On the other hand, because the Brooke-Cranston approach provides a permanent interest subsidy, it could require a greater federal expenditure than the limited-duration mortgage-interest-reduction-payment approach to provide the same reduction in monthly mortgage payments in the early years of the loans. The eventual cost of assistance under the Brooke-Cranston program, however, would depend on the level of interest rates when the reduced-interest mortgages purchased by the government were eventually resold.

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8. For a more complete discussion of countercyclical housing assistance options, see General Accounting Office, **Symposium on Countercyclical Stimulus Proposals for Single-Family Housing** (1982), and **Symposium on Countercyclical Stimulus Proposals for Multifamily Housing** (1982).

9. A program that would have funded short-term mortgage-interest-reduction payments was included in a supplemental 1982 appropriations act that was passed by the 97th Congress and vetoed by the President.

Other program-design decisions that would have to be made include: the mix between assistance for single-family and multifamily structures, whether assistance should be limited to newly built homes, the size of the subsidy to be provided, what households should be eligible to receive assistance, and how the program should be terminated, or "triggered off." Generally, subsidies for the purchase of single-family homes might be translated into additional construction starts more rapidly than would aid for multifamily structures, because less time might be required for project planning. Similarly, limiting the aid to yet-to-be-built homes would probably maximize the short-term construction impact.

The size of any single-family mortgage subsidy, in conjunction with the eligibility criteria for participating households, might be especially important in determining the immediate construction impact of any program, as well as its cost. Providing a very small subsidy while setting high income-eligibility limits for participating households would reduce the average federal expense per household assisted but would probably direct a greater proportion of the aid to persons more likely to have bought homes in any event. By contrast, providing a larger subsidy while setting eligibility limits somewhat lower would increase the average federal expense, but might also direct a greater proportion of the aid to persons less likely to have bought homes without assistance. In neither event, however, would limited mortgage-interest subsidies alone make new homes affordable to low-income persons.

A final issue concerns whether provision should be made for any new countercyclical housing subsidy program to be triggered off automatically. Specific options include terminating assistance in the event either that market mortgage interest rates fall below some predetermined level or that housing starts rise above some threshold.

COUNTERCYCLICAL WAGE SUBSIDIES

Still another approach to expanding job opportunities would be to provide wage subsidies to private-sector employers hiring additional workers. Such a subsidy--which could be provided either through a tax credit or a voucher—would be intended to stimulate broad-based employment gains by reducing the cost of employing additional workers.

Past Experience

The New Jobs Tax Credit (NJTC)—enacted in 1977 and effective for the 1977 and 1978 tax years--is an example of a countercyclical employment tax credit.10/ The NJTC provided businesses a nonrefundable tax credit to 50 percent of the first $4,200 of wages per employee for increases in

10. As discussed in Section V, employment tax credits can also be designed to aid persons suffering from structural employment problems. The Targeted Jobs Tax Credit--enacted in 1978 as a replacement for the NJTC—is an example of such a program.

employment of more than 2 percent over the previous year. Since the employer's business deduction for wages was reduced by the amount of the credit, the net credit to the employer (and the net revenue loss to the government) was lower than the maximum nominal credit of $2,100 per employee.11/

One study estimated that more than 3.2 million employees (representing about one-half of total private employment growth) were claimed under the credit during the two years of its existence, for a net revenue loss of $4.1 billion. However, according to this study, 50 percent or more of the new employment claimed under the credit would have occurred anyway.12/ In fact, in one survey only 6 percent of the firms contacted reported that their employment decisions had been altered by the availability of the credit—although more than half had claimed a credit for employment growth. That survey reported that for the great majority of all firms the most important consideration in hiring decisions was the level of product demand, rather than the marginal cost of labor. Employers were extremely

11. How much lower the net credit was relative to the nominal credit depended on the employer's tax rate.

12. See John Bishop, "Employment in Construction and Distribution Industries: The Impact of the New Jobs Tax Credit," Institute for Research on Poverty, Discussion Paper No. 601-80 (April 1980).

reluctant to increase hiring in response to the credit without confidence that the additional output produced could be sold for a profit.[13]

Policy Implications and Options

An employment tax credit has both advantages and potential shortcomings as a countercyclical measure. On the one hand, a credit can be implemented quickly and made applicable only for hiring during specified time periods, with little additional administrative burden for the federal government apart from advertising the credit's availability. On the other hand, the potential for net job creation from a general employment tax credit is uncertain. Experience with the NJTC indicates that the credit was a windfall to employers for at least 50 percent and perhaps up to 95 percent of the employment claimed. This implies that the average net federal revenue loss per job created as a result of the credit could range from a low of $2,200 to about $17,100 annually.

Making a tax credit refundable might increase induced employment, because at the time employers made their hiring decisions they could be certain of benefiting from the credit regardless of the extent of their eventual tax liability. Refundability would, however, increase the government's revenue loss.

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13. See Robert Tannenwald, "Evidence Concerning the Effects of the New Jobs Tax Credit: Interviews and NFIB Survey," unpublished paper.

Another option would be to provide a wage subsidy by allowing the recipients of Extended Unemployment Insurance Benefits to transfer their entitlements to vouchers payable to their new employers.14/ The voucher could be redeemable on a portion of the worker's wage over several months of employment to insure that the new jobs were not short-term ones. Such a voucher system would be similar to a refundable employment tax credit in that it might generate additional employment by reducing overall labor costs to a firm. In contrast to a universally available tax credit though, some of the employment gain under a voucher could come at the expense either of other unemployed workers without vouchers or of present employees. A voucher program based on Extended Benefits would probably involve no net federal cost, because eligible workers have already been unemployed for 26 weeks or more, so the payments would almost certainly have to be made in the form of UI benefits were the vouchers not available.

UNEMPLOYMENT INSURANCE

Altering the Unemployment Insurance (UI) program is another means of aiding unemployed persons. Although some changes could be made that might increase employment prospects for the jobless--such as using UI benefits as a wage subsidy, as discussed earlier--the principal objective of UI is to replace a portion of lost earnings.

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14. The current Unemployment Insurance system is described briefly in the next section.

The Current Program

Currently, Unemployment Insurance is the major income support program for workers who have lost their jobs. A joint federal-state system, UI currently provides partial income replacement for up to between 32 weeks and nearly one year for unemployed persons who meet certain minimum previous-work-experience criteria and who can demonstrate that they are seeking employment. The benefits paid depend on a recipient's previous employment and on state laws. The present average weekly benefit is approximately $115.

There are currently three layers of UI covering progressively longer periods of unemployment. Regular UI is financed entirely by the states and is available for up to 26 weeks. Extended Benefits (EB)—financed equally by the federal and state governments--are available for up to an additional 13 weeks when unemployment in a state exceeds certain thresholds. The third layer of benefits is Federal Supplemental Compensation—authorized in October 1982 and available through March 1983. These benefits--which are financed entirely by general federal revenues—are available for up to six to ten weeks, depending on the state unemployment rate, and are paid even in states in which Extended Benefits are not available. In October 1982, approximately four million persons were receiving regular UI benefits; an additional 475,000 were receiving Extended Benefits; and about 800,000 were receiving Federal Supplemental Compensation.

Policy Options

Although UI is primarily an income support program, certain changes could be made that would provide additional flexibility in dealing with unemployment. Changes could be made that might help recipients to relocate or obtain training; spread the costs of joblessness among a larger number of workers; or provide extended support to a larger number of the unemployed. Because recent high joblessness has caused serious financial strains for the UI system, however, any increases in benefits not financed with additional revenues would only worsen that situation.

Using UI Funds to Promote Relocation or Training. One change in the UI system would be to allow Extended Benefit recipients to receive their entitlements as lump-sum payments that could be used either for relocation to an area with lower unemployment or for training. While UI benefits can now be transferred from one state to another if the recipient moves, after several weeks of unemployment a jobless worker may lack the funds necessary to relocate. The lump-sum cash benefit could provide these funds. Alternatively, the lump-sum payment could be used to pay for training. In either case, however, if the worker remained unemployed for some additional time, the lack of weekly UI benefits could cause severe hardships.

Sharing the Costs of Unemployment. A second approach would be for the federal government to encourage and work with states to implement so-called "work sharing" programs, such as those developed in Arizona, California, and Oregon. These plans allow certain employers to reduce staff hours across the board rather than laying some people off entirely, and then permit employees to draw pro-rated UI benefits for the lost hours. Under such a plan, instead of 10 percent of a firm's employees being laid off, for example, each employee's hours could be reduced by 10 percent, with each worker then receiving 10 percent of his or her full UI benefit. The Tax Equity and Fiscal Responsibility Act of 1982 directed the Department of Labor to develop model legislation for state work-sharing programs, and additional support could be provided to help states develop and enact such programs quickly.

This option would permit small income reductions for many workers rather than a complete loss of earned income for a few workers. Preliminary evidence indicates that this type of plan has been successful in California. In order to extend the plan beyond Arizona, California, and Oregon, however, other states' laws that prohibit persons who work more than some minimum amount from receiving UI would have to be changed. Also, substantial labor-management cooperation would be required to make the plan work widely.

Extending the Duration of UI Benefits. With current high unemployment reducing the chances of jobless workers finding employment, the federal government could increase the duration of UI benefits to provide additional support to the long-term unemployed. This could be done in several ways, including: extending the March 31, 1983, termination date for the Federal Supplemental program; increasing the maximum duration of those benefits; or repealing some of the recent legislative changes affecting the availability of Extended Benefits. In each case, however, the additional benefits would have to be financed through higher taxes or a higher federal deficit, since the UI system is already facing financial difficulties.

Reauthorizing the Federal Supplemental Compensation program for six additional months through the end of fiscal year 1983 would cost approximately $2 billion and would provide additional benefits for nearly two million long-term unemployed workers. Increasing the maximum duration of Federal Supplemental Compensation to 8-15 weeks, instead, would increase UI outlays by $700 million. Reducing to their pre-1982 levels the unemployment thresholds above which states may provide Extended Benefits would add about $800 million to UI outlays if implemented for all of fiscal year 1983, and would provide additional benefits to about one million persons.